

New Markets Tax Credit Decision Making Authority

Office of Economic Development – January 11, 2010

Background:

The federal government recently awarded a \$40 million New Markets Tax Credit allocation to the Seattle Investment Fund LLC. The Seattle Investment Fund LLC is a Community Development Entity (the program term for a tax credit entity) in which the City of Seattle is the sole and managing member. There are no requirements as to how the City of Seattle exercises its decision-making authority. To help guide the choice of administrative structure, OED has researched how other cities with NMTC allocations exercise their decision-making authority. We are attaching the research results to this memo.

Research Results:

Throughout our discussions, cities have consistently stressed the need for a decision-making body to have the following elements:

1. Small in numbers

- The decision making body needs to have a limited number of members in order to quickly convene and evaluate funding requests. The federal government rates the success of a Community Development Entity (“CDE”) largely on its ability to invest tax credits efficiently within a 1-2 year period (the legal requirement is to invest a majority of credits within 3 years). A small and nimble decision-making body will enhance the CDE’s ability to invest tax credits within 1-2 years and to obtain future allocations of tax credits.
- Cities have limited membership in decision-making bodies to an average of 5-7 members.

2. De-politicized Decision Making

- Several cities include city department heads and city council representatives as members of the decision making body. However, none of the cities have reviewed potential NMTC projects through the usual city council review/legislation process. The cities have expressed concern that review through the usual political process would hamper the CDE’s ability to efficiently invest tax credits. Moreover, cities have expressed the need for review outside of the usual process to foster investor confidence that projects are selected based on sound financial underwriting as opposed to political considerations.

3. Meaningful input from community representatives

- The federal government requires CDEs to receive meaningful community input on their projects. This means establishment of an advisory board/committee consisting of representatives from low-income communities.
- All cities meet routinely with their advisory boards to receive input on their project pipeline with a few cities giving “veto” power to their advisory board to stop projects from proceeding.

Recommended Decision-Making Structure:

Using lessons learned from other cities, we recommend that Seattle Investment Fund LLC's investment decisions be made by a 5-member investment committee with community input provided by a 7-member advisory committee.

1. Investment Committee consisting of 5 members:

- Two city department heads
- Two city council representatives
- One advisory committee member, as chosen by the advisory committee
- Note: we do not believe that Council legislation is legally required to establish this committee; however, we believe a resolution would be helpful in providing formal clarification of the Seattle Investment Fund LLC's decision-making structure.

2. Advisory Committee consisting of 7 members. As part of the prior application process, we identified a 7-member advisory committee consisting of representatives from CADA, Chinatown ID BIA, Gates Foundation, HomeSight, SCIDPDA and Rainier Chamber of Commerce. There is no specific term associated with their membership, and we now have an opportunity to revise membership as needed.

- The CDE will meet with the advisory committee on a quarterly basis to receive input on the CDE's project pipeline as well as general advice on investment priorities.
- The advisory committee will designate one of their members as a member of the CDE Investment Committee, with full voting rights.
- The term of advisory committee membership will be three-years